Rural Broadband Alliance

Education, Grassroots, Facts, and Opinions

Rural Broadband Alliance Transitional Stability Plan

Option For Incumbent Local Exchange Carriers
Subject to Rate of Return Regulation

Objectives of the Transitional Stability Plan Option:

1. Restore stability by assuring recovery of established operational costs and capital investments of rate-of-return carriers.

2. Ensure that sustainable and predictable cost recovery mechanisms are available to a rural rate-of-return carrier to provide that carrier with a reasonable opportunity to recover additional expenses incurred to provide an evolving level of universal service. Rate-of-return carriers should not be required to incur additional investments and expenses to provide universal service unless sustainable, predictable support is available – no unfunded mandates.

3. Alleviate the financial instability and uncertainty in a manner consistent with the overall objectives of the NPRM: *Fiscal Responsibility*; *Accountability*; *Market-Driven Policies; and Modernize USF and ICC for Broadband*. (Financial instability did not begin with the National Broadband Plan or the NPRM. Instability is caused by the tension between the need to recover the costs of providing universal service and the growing inadequacy of the cost recovery mechanisms which rely on a capped High Cost Loop Fund and shrinking access minutes and access lines.)

4. Ensure that USF is reasonably refocused and transitioned to support the deployment and maintenance of universal broadband service in the high cost to serve rural areas of the nation that are unserved or underserved (in accordance with definition provided by the FCC), and in those high cost areas where universal service could not be maintained in the absence of support.

5. Consistent with the goals of the NPRM, transition switched access charges to lower rate levels, and reduce the exposure of rural companies to reliance on declining switched access charge minutes as a primary source for the recovery of costs by rate-of-return carriers. Again, consistent with the NPRM, recover the needed lost access revenues from the USF.

6. Provide rural incumbent rate-of-return carriers with meaningful incentive regulation alternatives in response to the direct challenge by the FCC to propose an incentive regulation framework alternative to the price cap regime utilized by larger carriers.

Summary of the Transitional Stability Plan Option:

Similar to options provided today to rural rate-of-return carriers (cost, average schedules, and price-caps), this plan provides an option for electing carriers to address the need for financial stability in the provision of universal service.

The elements of this optional plan are as follows:

1. Electing rate-of-return carriers freeze their interstate revenue requirement as of a date certain.

2. All investments and expenses included in an electing carrier's most recent cost of service study are deemed used and useful and are not subject to further disallowance. In addition, an electing carrier's future capital investment commitments arising from the electing carrier's participation in RUS financing or the ARRA Broadband Stimulus program are deemed used and useful.

3. The electing carrier's frozen interstate revenue requirement is subject to an annual reduction based either on an adjustment to reflect additional accumulated depreciation over time or a factor (similar to the productivity factor concept used with price-caps).

4. The electing carrier's frozen interstate revenue requirement is subject to an annual increase to reflect additional expenses needed to maintain universal service or to provide an evolving expansive definition of universal service. These adjustments, subject to prior FCC approval, ensure that the rural carrier has a meaningful opportunity to recover costs, and that it is not subjected to unfunded mandates. Carriers should not have the obligation to incur additional expense without the provision of a cost recovery mechanism that will predictably provide the needed funding. To the extent that the electing carrier demonstrates a requirement for additional funding, any additional funding will be distributed from the Connect America Fund (CAF).

5. The electing company's annual USF funding will be the residual of its adjusted frozen interstate revenue requirement reduced by the company's settled access charge revenues and subscriber line revenues.

6. Because the plan provides for a residually derived USF payment, the option can be exercised either within or outside of the NECA pools.

7. In order to address carrier concerns with shrinking access minutes, the plan provides the option for the electing carrier to move to access charge price caps with recovery from the CAF of the otherwise resulting lost access revenue needed for cost recovery.

The Transitional Stability Plan Option Addresses Each of the FCC Tenets

***Modernize USF and ICC for Broadband*:** The FCC's fundamental goal is to "*Modernize and refocus USF and ICC to make affordable broadband available to all Americans and accelerate the transition from circuit-switched to IP networks, with voice ultimately one of many applications running over fixed and mobile broadband networks. Unserved communities across the nation cannot continue to be left behind.*"

Under the stability proposal, additional funding requests are tied to the need of the rural carrier to make investment or incur additional expenses in order to maintain or expand the provision of universal broadband service. Recognizing that access charges were designed to provide implicit network support in an era of growth of circuit-switched services, the stability proposal provides an option to move forward with reduction in access charges in order to transition reliance on network support away from access revenues.

***Fiscal Responsibility*:** The FCC states that it seeks to "*Control the size of USF as it transitions to support broadband, including by reducing waste and inefficiency*."

The transitional stability option freeze provide a constraint on the existing fund. The only additional funding available to the electing carrier will be tied directly to the FCC's objective to expand and maintain the provision of broadband service, and, accordingly, any such funding will be distributed from the CAF.

***Accountability*:** The FCC states that it will "*Require accountability from companies receiving support, to ensure that public investments are used wisely to deliver intended results. Government must also be accountable for the administration of USF, including through clear goals and performance metrics for the program.*"

The stability plan provides funding for existing expenses and established investment subject to the Commission's audit processes. Additional funding is only provided subject to the accountability the FCC seeks.

Most significantly, the FCC acknowledges the need to provide "clear goals and performance metrics. " The stability proposal begins with the requirement for the FCC to set the clear definition of what level of universal service it wants to fund – the purpose is to ensure that rural carriers are never again left in the limbo where the FCC suggests that it may not provide funding for investment decisions made in good faith to deploy advanced network. The FCC should be clear in setting out what service levels it deems "used and useful" and eligible for funding.

***Market-Driven Policies*:** The FCC states that it wants to "*Transition to market-driven and incentive-based policies that encourage technologies and services that maximize the value of scarce program resources and the benefits to all consumers.*"

The transition stability option provides rural companies with meaningful incentives to manage their business within the frozen interstate revenue requirement. Recognizing the reality of scarce program resources, any additional funding requests are tied into the Commission's objective of targeting funding to the provision of broadband with accountability and fiscal responsibility as discussed above.

The Transitional Stability Plan Offers A Needed Option

The adoption of the Interim Stability Incentive Plan as an option to the proposals regarding USF and intercarrier compensation set forth in the FCC NPRM will provide a responsive alternative for many rural carriers in need of action to restore stability in their operations and certainty of an opportunity to recover their established investments and operating expenses.

The proposal provides a set of actions that address the concerns of many rural companies in a manner consistent with the framework of the NPRM issued by the Commission.

While this Interim Stability Incentive Plan sets forth modifications of the Commission's initial "near-term" proposals set forth in the NPRM, it does so in a manner that advances the Commission's stated objectives while ensuring the continued provision of universal service and the deployment of advance networks in rural areas consistent with the goals of both the Commission and the NBP.